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by Tahsin Mehdi and Marc Frenette

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Labour productivity in industries dependent on United States demand for Canadian exports

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Introduction

Increases in labour productivity are integral to long-run improvements in living standards. Since the early 1980s, growth in labour productivity has accounted for over 90% of the increase in Canada's real gross domestic product per capita, while the remainder has come from gains in labour utilization, or hours worked per capita (Gellatly and Gu 2024). Improving labour productivity has been identified as a key priority for Canada.¹ Since 2000, labour productivity in Canada has increased at an average annual rate of 0.8%, less than half the average annual pace (1.9%) observed in the United States (Statistics Canada 2024a). Slower labour productivity growth since 2015 has been largely attributable to weak capital investment, which was pervasive across industries. Indeed, investment per worker declined by nearly 20% from 2014 to 2022 (Gellatly and Gu 2024).

Slower labour productivity growth relative to the United States is a concern since the United States is Canada's largest trading partner by far.² In early 2025, trade tensions emerged between the two countries, leading to U.S. tariffs being imposed on Canadian exports and Canadian counter-tariffs being imposed on U.S. imports. In 2024, 10.4% of Canadian jobs (corresponding to roughly 1.7 million jobs) were in industries dependent on U.S. demand, either directly or indirectly.³

Frenette et al. (2025) found that jobs dependent on U.S. demand were generally well-paying. Although not a direct measure of labour productivity, wages and salaries are correlated with it. Therefore, a consequence of trade tensions with the United States may be the loss of highly productive jobs.

This article compares labour productivity from 1997 to 2024 between industries dependent on U.S. demand and other industries in the business sector, drawing on Statistics Canada data from table 36-10-0480-01 (Labour productivity and related measures by business sector industry and by non-commercial activity consistent with the industry accounts) and table 12-10-0100-01 (Value added in exports, by

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1. For example, see Bank of Canada (2025), Government of Canada (2025) or Organisation for Economic Co-operation and Development (2025a).
 2. As productivity stagnates or lags, Canadian firms may face rising production costs compared with their U.S. counterparts, potentially reducing their ability to compete in domestic and international markets. This diminished competitiveness can lead investors to prefer opportunities in the United States, resulting in reduced capital inflows to Canada. Additionally, downward pressure on the Canadian dollar may ensue, worsening Canada's terms of trade and amplifying the impact of slower productivity growth on economic performance.
 3. These estimates are based on the System of National Accounts and differ slightly from those of Statistics Canada (2024b), which were based on the Labour Force Survey.

industry, provincial and territorial).⁴ Labour productivity in this study is measured by real value added (output of goods and services minus intermediate inputs) per hour worked (chained 2017 dollars).^{5,6}

Labour productivity in industries dependent on United States demand for Canadian exports grew faster relative to that in other industries in the business sector from 2019 to 2024

Industries dependent on U.S. demand collectively generated 19.2% of Canada's nominal value added in 2021, which is a lower share of the economic value this same group generated in 1997 (25.3%). One reason for the decline is that the share of jobs in these industries decreased from 17.1% in 1997 to 11.0% in 2021.

From 1997 to 2014, labour productivity in industries dependent on U.S. demand grew substantially faster than in other industries in the business sector (Chart 1). This gap narrowed from 2014 to 2019 as labour productivity growth slowed, especially in industries dependent on U.S. demand.⁷ In the 2019-to-2024 period, labour productivity growth in industries dependent on U.S. demand (4.4%) once again outpaced that in other industries (0.5%).^{8,9}

4. The business sector combines the business establishments of North American Industry Classification System codes 11 to 81, with the exception of the owner-occupied dwellings industry (table 36-10-0480-01).

5. This article follows Fields et al. (2025) and considers industries dependent on U.S. demand as those where 35% of jobs or more depended on U.S. demand for Canadian exports of goods and services in 2023, either directly or indirectly (latest data available from table 12-10-0100-01). Although the specific industries meeting this threshold can change over time, most remained consistently represented across the years.

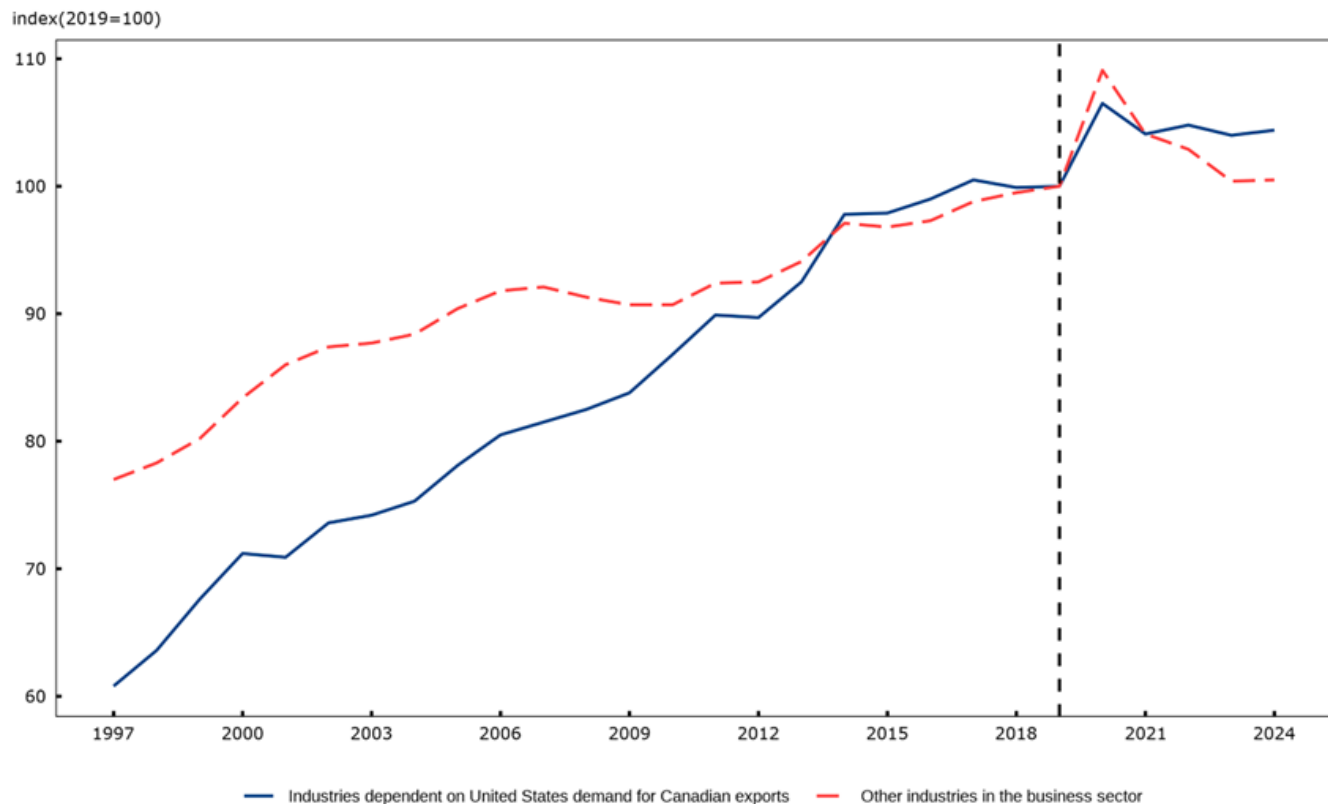
6. Information on nominal value added from table 36-10-0480-01 was available only up to 2021, whereas real value added (in chained 2017 dollars) was available up to 2024 based on projection methods.

7. Potential reasons behind the slowdown in labour productivity growth after 2014 include the decrease in commodity prices, weakening investment and declining competitive intensity (e.g., Allen et al. 2025; Gellatly and Gu 2024; Gu 2024; Gu and Willox 2023).

8. Labour productivity rose sharply from 2019 to 2020, despite the COVID-19 pandemic, which began in 2020. The reason is that from 2019 to 2020, real value added decreased at a slower rate than total hours worked as a result of the disparate impacts the pandemic had across industries (Wang 2021).

9. Previous research supports the connection between export market participation and productivity gains likely attributable to increased capital intensity (Baldwin and Gu 2003).

Chart 1
Labour productivity growth in industries dependent on United States demand for Canadian exports and other industries in the business sector, 1997 to 2024



Notes: The dashed vertical line demarcates the base year of 2019, at which point both indexes are set to 100. Industries dependent on U.S. demand for Canadian exports are subsectors where 35% of jobs or more depended on U.S. demand for Canadian exports in 2023. Labour productivity refers to real value added per hour worked. Labour productivity growth was estimated using Tornqvist aggregation across the subsectors that make up the broad group of industries dependent on U.S. demand for Canadian exports and the broad group of other industries in the business sector. This method estimates productivity growth by weighting each subsector's change in real value added from one year to the next by its average share of nominal value added across the two years. Since nominal value added data were available only up to 2021, the Tornqvist weights for 2022 to 2024 were constructed by holding nominal value added at 2021 levels for those years. Annual growth reflects the weighted average of subsector-level changes, capturing both shifts in subsector productivity and changes in subsector size over time.

Sources: Authors' own calculations from Statistics Canada tables 36-10-0480-01 and 12-10-0100-01.

Labour productivity growth varied considerably across subsectors dependent on United States demand for Canadian exports from 2019 to 2024

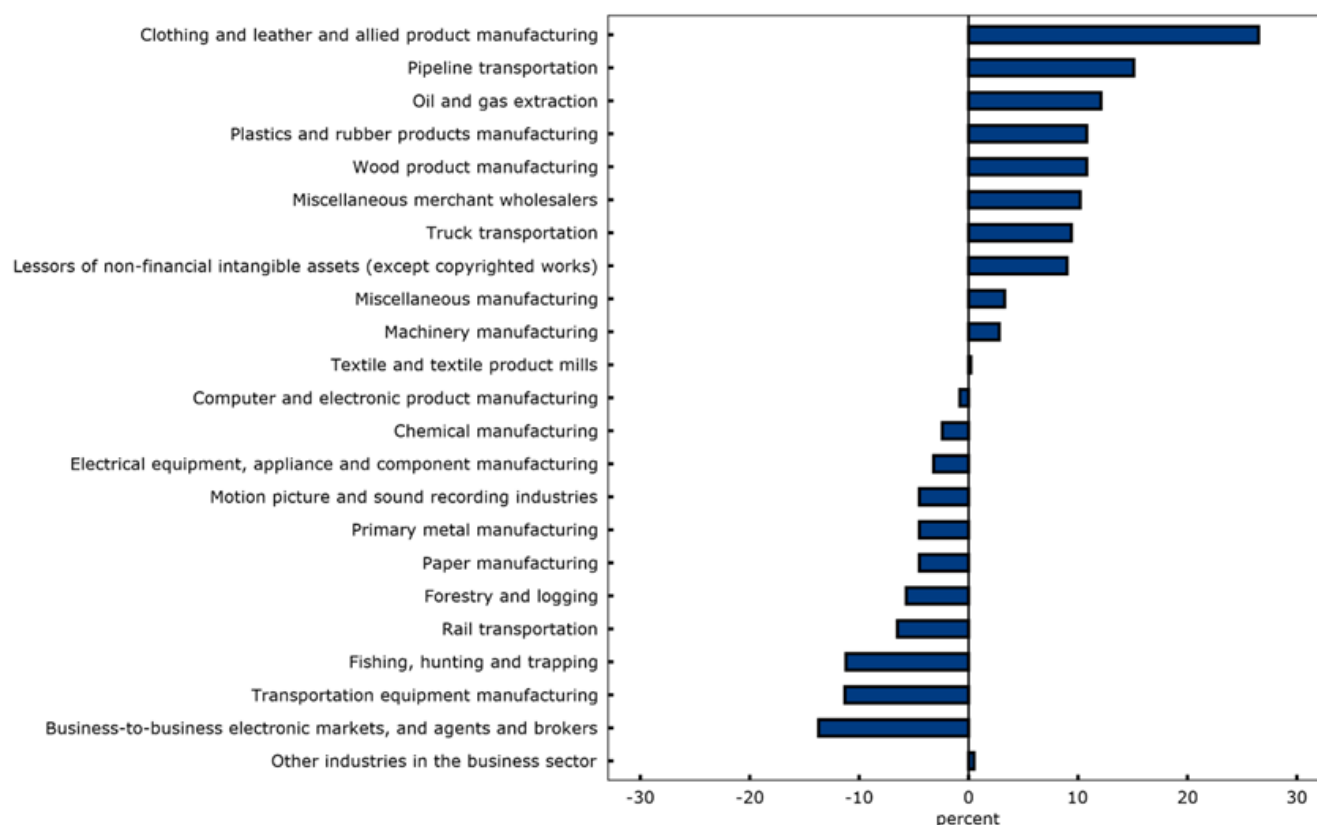
While industries dependent on U.S. demand collectively outperformed other industries in the business sector in terms of labour productivity growth from 2019 to 2024, this was not unilateral across the 22 subsectors encompassing industries dependent on U.S. demand (Chart 2).

Labour productivity grew in 11 subsectors from 2019 to 2024. Clothing and leather and allied product manufacturing (26.5%), pipeline transportation (15.1%), and oil and gas extraction (12.1%) were the top three performers over this period. Oil and gas extraction accounted for 0.5% of all jobs in 2021, while the other two subsectors each accounted for 0.1%. Oil and gas extraction generated 6.2% of the economy's nominal value added in 2021—the highest share among the 22 subsectors. Pipeline transportation generated 0.6%, and clothing and leather and allied product manufacturing generated 0.1%.

The bottom three performers among industries dependent on U.S. demand were business-to-business electronic markets, and agents and brokers; transportation equipment manufacturing; and fishing, hunting and trapping. From 2019 to 2024, labour productivity in these subsectors decreased by 13.7%, 11.3% and 11.2%, respectively. Collectively, these three subsectors accounted for 1.7% of all jobs and 1.8% of the economy's nominal value added in 2021.

Chart 2

Labour productivity growth across industries dependent on United States demand for Canadian exports and other industries in the business sector, 2019 to 2024



Notes: Industries dependent on U.S. demand for Canadian exports are subsectors where 35% of jobs or more depended on U.S. demand for Canadian exports in 2023. Labour productivity refers to real value added per hour worked. Labour productivity growth in other industries in the business sector was estimated using Tornqvist aggregation across the subsectors that make up this broad group of industries. This method estimates productivity growth by weighting each subsector's change in real value added from one year to the next by its average share of nominal value added across the two years. Since nominal value added data were available only up to 2021, the Tornqvist weights for 2022 to 2024 were constructed by holding nominal value added at 2021 levels for those years. Annual growth reflects the weighted average of subsector-level changes, capturing both shifts in subsector productivity and changes in subsector size over time.

Sources: Authors' own calculations from Statistics Canada tables 36-10-0480-01 and 12-10-0100-01.

Conclusion

Jobs in industries dependent on U.S. demand for Canadian exports generated relatively higher economic value per hour worked than the rest of the business sector from 2019 to 2024. However, not all subsectors dependent on U.S. demand outperformed other industries in the business sector.

The trend toward weaker productivity growth has been observed, to varying degrees, across other advanced economies (Organisation for Economic Co-operation and Development 2025b). Nonetheless, the potential loss of jobs in more productive industries as a result of tariffs could result in Canada losing ground to its peers.

Authors

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